



**Testimony of Abraham Scarr
Director, Illinois PIRG
in support of SR2018-837**

Chairperson Cardenas, Vice Chairperson Osterman, honorable members of the committee: thank you for the opportunity to testify today. My name is Abraham Scarr and I am the Director of Illinois PIRG. Illinois PIRG is a statewide, citizen funded, non-partisan public interest advocacy organization that stands up to powerful special interests whenever they threaten our financial security, health and wellbeing, and right to fully participate in democratic society.

Thank you Chairperson Cardenas for introducing this resolution, which we strongly support.

The Peoples Gas System Modernization Program (SMP) is a poorly designed, mismanaged, bad deal for Chicago. While our critique of the program and state policymakers' failure to oversee and regulate it is broader, I will focus my testimony on three issues.

First, despite its public safety justification, the SMP does not prioritize public safety. Rather than running a targeted at-risk pipe replacement program, Peoples Gas is running a comprehensive, accelerated effort to upgrade the entire Peoples Gas distribution system to medium pressure.

Second, the accelerated pace of investment creates the completely unnecessary affordability burden for customers. Peoples Gas is attempting to complete its full system overhaul on a timeline recommended for a much smaller body of work - the replacement of a subset of at-risk pipes. This accelerated pace drives bill increases and is a greater harm to consumers than the overall cost of the program.

Third, this effort to overhaul the entire Peoples Gas distribution on an accelerated timeline is unwise in the time of climate change. Science tells us we need to transition off heating our homes by burning fossil fuels in the next 30 years, well within the lifetime of the new pipes. Accelerated replacement increases the potential for billions in stranded assets.

The SMP does not prioritize public safety

The public safety risk used to justify the SMP is the risk that old, deteriorating cast iron and ductile iron pipes will leak, crack or break. The way to mitigate that risk is to replace the old pipe with new plastic pipe.

The way to run a targeted program to replace at-risk pipe starts with creating a method for quantifying and measuring the risk in each and every segment of pipe, and then proceeding to replace pipe segments, starting with the highest risk, and moving to the lowest risk. Peoples Gas created such a method in the early 1990s and used it through most of the 2000's.

This is not the approach Peoples Gas has used since 2011. Instead, Peoples Gas goes neighborhood by neighborhood, replacing both high- and low-risk pipe at the same time. This zonal approach works better for medium pressure upgrades than it does for at-risk pipe replacement. As a result, a high risk pipe segment could languish for decades, because other pipes in its area are low risk.

By including medium pressure work in the scope of the SMP, and prioritizing medium pressure work over at-risk pipe replacement in the design of the SMP, Peoples Gas is prioritizing the overhaul of its entire system over the mitigation of the specific risk posed by aging pipes.

Peoples Gas does not collect quality information, measure risk, or analyze its performance in a manner that would allow it effectively prioritize safety.

A 2015 program audit describes how a project like the SMP requires "a sophisticated approach to the assessment of safety risk" and a "structured and comprehensive set of methods for prioritizing repair and replacement efforts."¹ The audit recommended Peoples Gas develop a more robust and detailed set of metrics to measure risk in its system and the effectiveness of its work to mitigate risk.

While Peoples Gas worked with the auditors to develop metrics to close the audit finding, they later reneged on their commitment to use them, and derisively stated that measuring the impact of the SMP in a meaningful way is "not possible," and that detailed metrics to evaluate risk "provides little value but rather sets up additional points of debate regarding what is a quantifiable approach to public safety or risk."²

The lack of appropriately detailed measurements and assessments of risk not only limits the ability of Peoples Gas to understand the performance of its program, it also limits the ability of regulators to oversee the program.

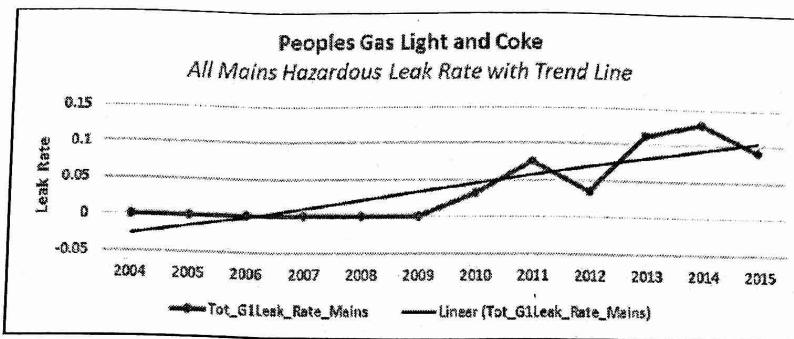
The evidence, such that we have in the form of leak rates, indicate that the program is failing to mitigate risk in any proportion to the massive outlay of capital.

Outside auditors found the failure of leak rates to decline alarming, making it a topline finding of their audit. According to the analysis of an expert hired by the Office of the Attorney General in 2017, leak rates remained high.

¹ Final Report on Phase One of an Investigation of Peoples Gas Light and Coke company's AMRP, May 5, 2015, F-1.

² PGL Exhibit 2.0 - Andrew J. Hesselbach, 16-0376, 9.

Current reporting from Peoples Gas shows no apparent correlation between neighborhoods with high leak rates and the schedule of its work.



Source: AG Ex. 1.0, Allen Neale, 16-0376, 20

Peoples Gas is spending billions of dollars on a program that is failing to achieve its public safety objectives. The System Modernization Program has failed to mitigate the risks posed by aging cast and ductile iron pipe because that is not what it is designed to do.

The pace of investment drives monthly bills and represents a greater harm to customers than the overall cost of the program.

Utility investments are recovered back from customers over time. By spending more money more quickly, the bill impact are higher. Spending the same amount of money, or even more money, but spreading it out over a longer period of time, lessens the bill impact, making it more affordable for customers. A mortgage is an appropriate analogy. A 15-year mortgage may save you money on interest and fees, but your monthly payments will be much more difficult to pay than on a 30-year mortgage.

Peoples Gas acknowledges this dynamic, stating during a recent ICC investigation “Extending the SMP will tend to decrease the annual bill impact.”³ As such, the first thing Peoples Gas and policymakers should do to lessen bill impacts is to slow the pace of spending.

Instead of slowing investment, Peoples Gas is planning to speed up even further. According to Peoples Gas’ 2018 annual report, it plans to increase capital spending even further in coming years, from \$1,262 million between 2016 and 2019 to \$1,913 million between 2019 and 2021.⁴ At least in previous years, the SMP represents the majority of this capital spending.

³ PGL Ex. 13.0 -- Debra E. Egelhoff, 3

⁴ Peoples Gas spending inflates parent's profit, Crains Chicago Business, 4/05/19, <https://www.chicagobusiness.com/utilities/peoples-gas-spending-inflates-parents-profit>

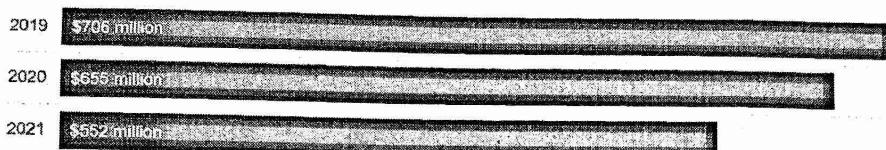
Peoples Gas capital spending

Since acquiring the parent of Peoples Gas in 2015, Wisconsin-based WEC Energy Group has steadily boosted capital spending, leading to higher heating bills for Chicagoans.



Created with Datawrapper

Peoples Gas capital budget



Source: Peoples Gas annual report, 2018 • Created with Datawrapper

Source: Crains Chicago Business

The company argues that its SMP pace is “driven by safety,” while never presenting any empirical evidence to support its as-fast-as-possible pace. Often, it says this pace and the program’s target 5 year end date window “is consistent” with the recommendations of the last engineering study performed on the Peoples Gas system in 2007. This is false.

The 2007 study by Kiefner and Associates recommended a 2036 end date for the replacement of only a subset of at-risk pipes, those with the smallest diameters, not all at-risk pipes. It recommended that larger diameter pipe segments, unless specifically, individually flagged as being higher-risk, should be replaced as late as 2080.

Kiefner recommendations

Pipe Diameter	Target completion date
4", 6", 8"	2036
10", 12"	2050
16" +	2080

Kiefner’s recommendation included the replacement of all at-risk pipes and recommended a 2080 completion date. The SMP, on the other hand, includes much more: the replacement all at-risk pipes, all low pressure pipe, moving meters outside, and related transmission upgrades, and aims to complete all of this work as early as 2035. Just considering miles of distribution

main to replace (not the other expanded scope elements) the SMP is, from the end of 2017, attempting to replace 1,853 miles of main by 2035-2040 compared to the Kiefner recommended 987 miles by 2036.

	Target for replacement	End date	Miles remaining to replace to reach target by end date (starting beginning of 2018)
Kiefner Study	Small diameter CI/DI pipe	2036 (for small diameter pipe)	987
SMP	All CI/DI and all low pressure pipe	2035-2040	1,853

Given the SMP does not effectively achieve its public safety justification nor need to be conducted in the manner or at the pace the company is implementing it, the affordability burden it is placing on an increasing number of Chicagoans is both unjustified and unnecessary.

Climate Change means gas system improvement investment should slow, not accelerate

Governor JB Pritzker, in one of his first acts as Governor, signed an executive order committing Illinois to reducing greenhouse gas emissions consistent with targets set in the 2015 Paris climate agreement.⁵ Achieving greenhouse gas emission reduction targets will depend on changes in energy production and consumption in the electric, transportation, building, and industrial sectors. This includes, of course, how homes and businesses heat space and water which represents a tenth of total US emissions.

The "United States Mid-Century Strategy for Deep Decarbonization," published by the White House in November 2016, responds to the Paris Agreement's invitation to nations to develop, by 2020, a "mid-century, long-term low greenhouse gas emission development strategies."⁶ The MCS presents two strategies for driving down emissions from the building sector, energy efficiency and electrification of end-uses, to achieve "near-complete" decarbonization of the sector.

While Illinois may be able to meet its greenhouse gas emission reduction targets without completely electrifying residential and commercial building space and water heating by 2050, significant gains in efficiency and electrification will be necessary - meaning Peoples Gas will have fewer customers and those remaining customers will consume less gas. Dividing

⁵ Executive Order 2019-06, accessed:
https://docs.google.com/viewer?url=https%3A%2F%2Fwww2.illinois.gov%2FIISNews%2F19626-Executive_Order_2019-06.pdf

⁶ United States Mid-Century Strategy for Deep Decarbonization, November 2016, 6.

accumulating SMP costs among less customers using less gas would drive bill impacts even higher, incentivizing more customers to electrify, creating a potential "utility death spiral."

The real potential that gas distribution systems will become stranded assets within this half-century should concern policy makers considering significant gas system investment. If anything, these types of investments should be slowed down, not accelerated.

Conclusion

In conclusion, I reiterate that our critique of the SMP is broader, including that it has been horribly mismanaged. Other testimony covers that today.

Under its previous leadership, the Illinois Commerce Commission went out of its way not hold Peoples Gas accountable. Thank you again to Chairperson Cardenas and the Chicago City Council for showing leadership where others have not. We hope today's hearing sparks more scrutiny of the SMP and ultimately to meaningful reform.